

# What Makes a System Work?

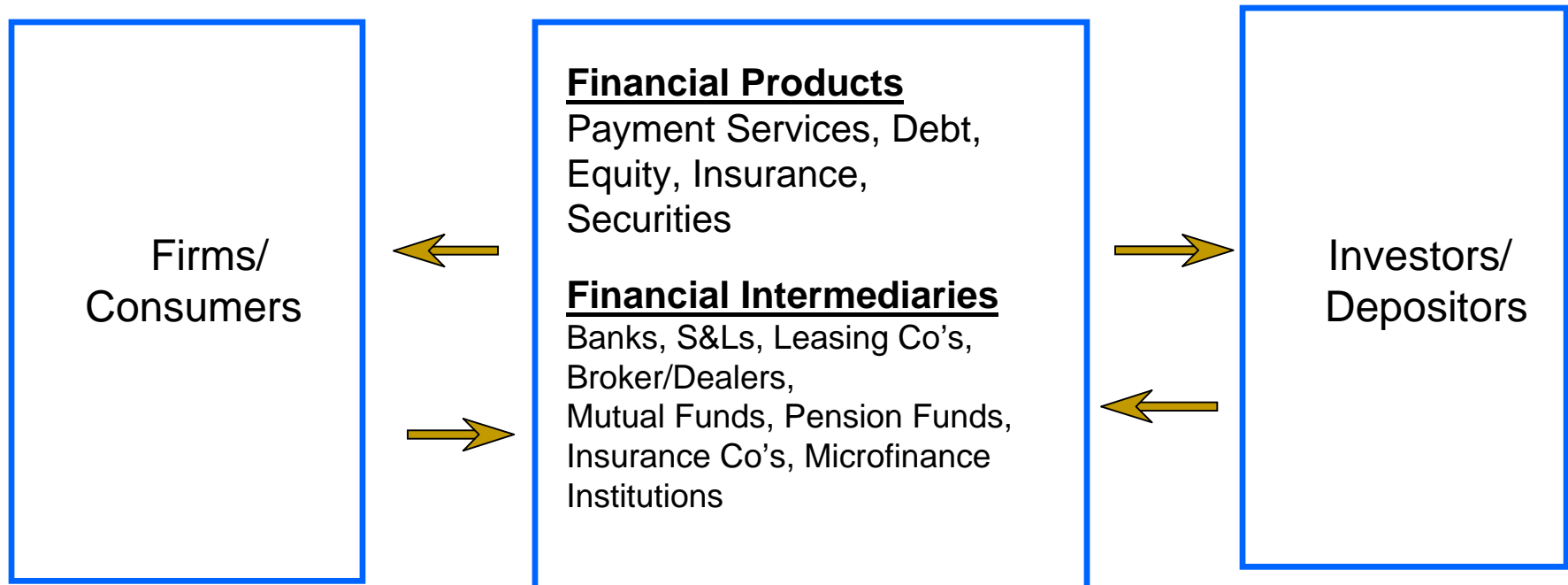
- Historical Prospective
- What is the Chain of Development - History in the US Market?
- What are the Infrastructure Pieces that Make the US System Work?
- The Role of Corporate Governance – US vs. Other Systems
- What is Applicable in the Developing Country Content

# Historical Prospective

- Today's financial sector includes such institutions as:
  - Banking system
  - Capital markets
  - Housing finance
  - Insurance and contractual savings programs
  - Payment systems
  - Rural, Micro, and SME finance institutions

# Financial Sector Intermediation

## Stakeholders and Institutions



**Market Facilitators:** Central Banks, Regulators, Credit Bureaus, Professional Services Providers, Stock Markets, Depositories

# Historical Prospective

- Today in many countries banks are the primary form of financial intermediation, and as such they are:
  - the largest repository for public savings;
  - the main source of external credit for companies; and
  - the key actor in the payment system.
- In sophisticated financial systems banks tend to be at the heart of the diversified financial service conglomerates.

# Chain of Development of US Financial Markets History & Structure

- US Financial Sector Development Prior to 1929 Stock Market Crash
- 1929 Stock Market Crash (“Great Depression”) – Background
- Financial Sector Reform Prompted by 1929 Stock Market Crash
- Financial Sector Deregulations – 1980’s and Beyond
- Effects of Recent Deregulations

# US Financial Sector Development Prior to 1929 Stock Market Crash

- Institutional Development /Creation
- Industry Regulations (Chartering)
- Legislation

# US Financial Sector Development Prior to 1929 Stock Market Crash

## Institutional Development /Creation:

- **1735:** First insurance company founded in Charlestown, SC.
- **1781:** Bank of North America was established in Philadelphia.
- **1791:** Congress chartered “First Bank of the United States.”
- **1816:** Congress chartered “Second Bank of the United States.”
- **1829:** New York State adopts a bank obligation insurance program.
- **1831:** First US saving and loan association founded .
- **1909:** First credit union, providing loans to blue-collar workers and small farmers.

# US Financial Sector Development Prior to 1929 Stock Market Crash

## Industry Regulations (Chartering):

- **1838:** New York adopted the Free Banking Act enabling anyone to engage in banking, upon compliance with certain charter conditions.
- **1840 – 1863:** all banking business was done by state-chartered institutions.
- In many Western States the Free Banking Act degenerated into “wildcat” banking because of the laxity and abuse of state laws.
- Bank notes were issued against little or no security, and credit was over expanded.



# US Financial Sector Development Prior to 1929 Stock Market Crash

## Legislation:

- **1861:** Secretary of the Treasury recommends a system of federally chartered banks.
- **1863:** National Currency Act provided for the creation of the Office of the Comptroller of the Currency (“OCC”)
- **1864:** National Currency Act re-written and re-enacted as the National Banking Act.
- **1865:** National banks were granted the authority to issue bank notes, collateralized by United States bonds.
- **1908:** National Monetary Commission created
- **1913:** Federal Reserve Act provided for a central banking organization (Federal Reserve System).

# 1929 Stock Market Crash ("Great Depression") –Background & Effects

- The prosperity of the 1920s was unevenly distributed – farmers and the unskilled were notably excluded. The nation's productive capacity was greater than its capacity to consumer.
- During the 1920s, approximately 20 million large and small shareholders took advantage of post-war prosperity and set out to make their fortunes in the stock market.
- An estimated \$50 billion in new securities were issued during this period; subsequently, about half became worthless.
- The fortunes of countless investors were lost when the stock market crashed in October 1929.
- Banks also incurred great losses in the Crash due to their significant involvement and investment in the stock market.

# Financial Sector Changes Prompted By 1929 Stock Market Crash

Consensus: Public confidence in the banks and capital markets needed to restore order and initiate an economic recovery.

“After all, there is an element in the readjustment of our financial system more important than currency, more important than gold, and that is the confidence of the people.”

*President Franklin D. Roosevelt*  
*1<sup>st</sup> “Fireside Chat” March 12, 1933*

# Financial Sector Changes Prompted By 1929 Stock Market Crash

- The Glass-Steagall Act of 1932 and the Banking Act of 1933 formed the foundation for the reform measures designed to correct the abuse that led to numerous bank crises.
- The Glass-Steagall Act prohibited commercial banks involvement in the securities and insurance businesses.
- The Banking Act strengthened the power of supervisory authorities, and increased the controls over the volume and use of credit.
- The Securities Act of 1933 and the Securities Exchange Act of 1934 were designed to restore investor confidence in the capital markets by adopting two common-sense notions to the Market.

# Financial Sector Changes Prompted By 1929 Stock Market Crash

- **1932:** Federal Home Loan Bank System created to oversee the saving and loans associations.
- **1933:** Federal Deposit Insurance Corporation (FDIC) was created to insure bank deposits of national banks and member state chartered banks.
- **1934:** Credit Union National Association founded. The Credit Union Act provided for the chartering of US credit unions by their respective states or by the federal government.

# Financial Sector Deregulations Highlights 1980's and Beyond

- **1980:** Depository Institution Deregulation and Monetary Control Act allowed savings and loans associations to broaden their scope of business.
- **1982:** Depository Institution Act gave S&Ls the right to make secured and unsecured loans to a wide range of markets, permitted developers to own savings and loans associations, and allowed S&L owners to lend to themselves.
- **1984:** commercial banks received federal support in buying discount brokerage firms and began to acquire failed saving banks.
- **1985:** interstate banking was declared constitutional.
- **1999:** Congress repeals the Glass-Steagall Act in an attempt overhauled the US financial system. Banks now allowed to engage in insurance and securities business.

# Effects of Recent Deregulations

- **1989:** FSLIC becomes insolvent. Federal Deposit Insurance Corporation takes over the FSLIC's insurance obligations (\$100 billion).
- The Resolution Trust Corporation created to buy and sell defaulted savings and loans associations.
- Office of Thrift Supervision created to identify struggling savings and loan organizations before it was too late.
- Estimated cost will be over \$500 billion over 30 years.

# Infrastructure Pieces that Make the US System Work

## Regulatory Environment /Institutions and Legal Environment

- Banking/capital markets laws and regulations
- Commercial laws and judicial systems
- Foreign direct investments laws and regulations
- Tax reform and accounting standards
- UCC filings (perfecting security interest)
- Bankruptcy laws
- Corporate governance and shareholders rights enforcement
- Credit Agencies



# Infrastructure Pieces that Make the US System Work

## **Human resources: training/knowledge of market professionals and participants**

“Faced with challenges of a different nature . . . Asia’s developing countries are now focusing more on aid to improve skills and know-how to manage and initiate structural reform programs and strategies.”

*Source: 1997 ADB Annual Report*

- Understanding the needs of the developing member countries has led the ADB to redefine its own role. Starting as a project financing institution, the ADB has now become a broad-based development institution.

# The Role of Governance

Governance: What is it?

- **Governance:** addresses how the board or regulatory body goes about exercising its authority over the an organization or field.
- **Governing:** when applied to a board or regulatory body refers to the legal rights to exercise authority over an organization or field.
- Governance involves a set of principals that determine the rights and obligations of the stakeholders.
- Governance seeks to balance the interest and expectations of the stakeholders and promote efficient business decision-making.

# The Role of Governance

Stakeholders: Who are they?

- Stakeholders are those who have an interest in the organization's/field's success because they will be affected by the outcome.

Corporate stakeholders include:

- Shareholders
  - Individuals;
  - Employees;
  - Management;
  - State / Local Government;
  - Strategic Investors; and
  - Investment Funds.
- Other stakeholders
  - Community;
  - Potential investors;
  - Lenders; and
  - Buyers/Suppliers.

# The Role of Governance

- Principals of effective governance includes:
  - Transparency
  - Disclosure
  - Accountability
  - Legality
  - Loyalty
- Principal goals of effective governance include:
  - Communication between stakeholders, board and management;
  - Accountability of management;
  - Transparency of process;
  - Manage stakeholder expectations; and
  - Provide information.

# Governance of Corporations

- Corporate Governance (“CG”) structures emerge from national development patterns, customs, laws and regulations, cultures, financial organizations, and markets. **No system of governance is perfect!**
- CG structures evolve and adapt to changing environments.
- The globalization of trade and capital is leading to a convergence of CG practices that reflect increased disclosure, transparency, and protection of minority shareholder rights.
- Difference in CG are frequently driven by:
  - Structure of capital markets;
  - Liquidity and ease of exit from market;
  - Structure of shareholdings;
  - Human resources available;
  - Government regulations; and
  - Political clout of other shareholders.

# Governance of Corporations

Advantage of good corporate governance:

- Access to capital (debt and equity);
- Access to domestic and foreign investments and investors;
- Protects directors/managers from legal action;
- Increases efficiency of decision-making; and
- Increases public faith and trust in reform.

Corporate governance defines:

- Rights of shareholders;
- Relationship between shareholders and their representatives (Board of Directors);
- Roles and responsibilities of Board members and management (as Boards and individually);
- Structure of the organization;
- Responsibility of the firm towards other stakeholders; and
- Procedures and guidelines.

# Governance of Corporations

Generally accepted shareholder rights include:

- Right to vote at shareholder meetings;
- Right to fair and equal treatment of shares of same class;
- Right to sell or transfer shares without approval or unreasonable costs/procedures;
- Right to dividends;
- Right to information concerning enterprise;
- Right to enforce loyalty and adherence to the company charter by their representatives (directors and managers); and
- Liability limited to initial investment.

Corporate governance structures share basic characteristics:

- General Meeting of Shareholders (or similar structures that provide shareholders a voice in company's decision-making;
- A management structure responsible to the General Meeting of Shareholders; and
- Shareholders' right to sue or seek redress.

# Two Corporate Governance Models

## German Model Characteristics:

- Concentrated ownership and power
  - Smaller stock market
  - Emphasis on debt rather than equity financing
  - Significant interlocking ownership between firms and financial institutions
  - Individuals shareholders invest through banks, transferring voting rights to banks via proxy
  - Banks effectively control 50% of shares
- Disclosure requirements less stringent than US



# Two Corporate Governance Models

## German Model Characteristics:

- Two-tier board system with employees have considerable influence (statutory role on the board)
- Supervisory Board (Aufsichtsrat)
  - One-third to one half elected by employees, others by shareholders
  - Members cannot be on the Management Board
- Management Board (Vorstand)
  - Elected by Supervisory Board
  - Consists of internal management only
  - Manage operations and represents firm

# Two Corporate Governance Models

## **US Model Characteristics:**

- Diverse ownership
  - Strong, anti-monopoly regulations
  - Large and liquid markets
  - Strong legal backing of shareholders rights
- Separation of financial institutions and industry (conflict of interest rules)
- Strict disclosure requirement
- One board
  - De facto control of the proxy process by management
- Employees have no statutory role

# Two Corporate Governance Models

## US Model Characteristics:

Traditionally shareholders have had limited involvement in firm due to:

- Ease of exit in liquid market (selling shares rather than voting for change)
- Dispersed ownership

Recently shareholders have increased involvement

- Cost of exiting investments for institutional investors has increased due to large block share holdings
- Hostile takeovers used as a tool to replace management

# Governance of the Financial Sector

## ***Improving governance of the financial sector resources involve:***

- Strengthening the legal and regulatory framework of the financial sector;
- Improving accountability and transparency in both the public and private sectors;
- Increasing disclosure and transparency of financial information;
- Establishing transparent, arms' length relations among the government, banks, and private sectors, thereby strengthening investor confidence;
- Capital markets development and liberalization;
- Strengthening capital market regulatory agencies;

# Governance of the Financial Sector

## ***Improving governance of the financial sector resources involve:***

- Strengthening the supervisory and enforcement capacities of regulatory agencies;
- Improving fiscal management;
- Implementing / improving anti-corruption and anti-money laundering measures;
- Assessing financial status and where feasible, restructuring and/or recapitalizing existing banks;
- Strengthening/establishing the legal and regulatory environment to facilitate debt recovery and structural adjustments; and
- Rationalizing the supervision and regulation of non bank financial institutions.

# Applicable Reforms in a Developing Country Context

- Strengthening Legal Environments (commercial, banking, securities, bankruptcy, UCC filing)
- Developing /Strengthening Capital Markets (to provide for improved tenor matching)
- Strengthening Regulatory Capacities, Controls and Enforcement
- Strengthening Human Resource Capacities (professionals and participants)

# Applicable Reforms in a Developing Country Context

- Strengthening Business Standards
- Strengthening Regulatory and Corporate Governance
- Transitioning from Government Assurances to Commercial Insurance (deposit insurance)
- Strengthen Capacity of Asset Management Companies

*Reforms should be encouraged during periods of economic prosperity!*

# International Capital Flows

- The 1997-1998 Crisis
- ST Capital Flows – the Positives and Negatives
- Trends and Why They Matter



# The 1997-1998 Crisis

- The collapse of the Thai baht in July 1997 marked the beginning of Asia's financial crisis.
- Equity and currency markets throughout Southeast Asia were under pressure as contagion raged and foreign capital fled.
- Indonesia, Korea, Malaysia, Philippines, and Thailand ("crisis-affected countries") suffered the most.
- For many countries the economic hardship is liken to that suffered in the US during the Great Depression.

# Explanations for the Asia Crisis

## ***Fundamentals vs. Panic Explanations***

- **Fundamentalist Argument:** Asian crisis (along with most other financial crisis) caused by poor economic fundamentals and policy inconsistencies.
- **Panic Argument:** Asia fell victim to a financial panic, like a classic bank run, when investors suddenly seized with panic demanded immediate payment. Financial intermediaries were forced to destructively liquidate long-term assets at a great loss.

# Positives and Negatives Capital Flows

- Too much foreign capital can undermine an economy.
- Heavy inflows of capital, even if such flows are primarily composed of foreign direct investments or have longer-term maturities, can create problems.
- An increase in the supply in foreign currencies, holding other factors constant, appreciates the value of the domestic currency and can lead to overvaluation.
  - Overvaluation of the domestic currency makes imports cheaper and exports more expensive, which can result in a serious current account deficit.
  - Overvaluation of the domestic currency also adversely effects the real local economy because it undermines the import-substituting industries.

# Positives and Negatives Capital Flows

## ***Which Explanation Fits Asia Best – Fundamental or Panic Argument?***

- At first glance, the past stellar record of the Asian economies does not support the fundamentalist interpretation. However, a closer inspection clearly shows that these countries' economic success was built on an economic strategy that emphasized:
  - Export orientation;
  - Centralized coordination of production activities;
  - Implicit (or even explicit) government guarantees of private investment projects; and
  - A close operational relationship and interlinked ownership between banks and firms.

# Positives and Negatives Capital Flows

- Under the classic model the Central bank can prevent market panic by acting as the “lender of last resort” and providing liquidity to the market.
- However, if a country’s exchange rate is fixed and foreign exchange reserves are limited in relation to short-term external debt, no mechanism for stemming panic is available.
  - *Indonesia, Korea, and Thailand short-term external debt exceeded international reserves.*
  - *By international standards, firms in “crisis-affected countries” were extraordinarily highly leveraged. In Korea and Thailand, for instance, the average debt-to-equity ratios in 1996 were above 200 percent.*

# Short-term External Debt and International Reserves, Prior to Economic Crisis in Selected Countries

Economies	Short-term debt (\$billion)	International Reserves (\$billion)	Debt-Reserve Ratio
Korea	70.18	34.07	2.06
Indonesia	34.66	20.34	1.70
Malaysia	16.27	26.59	0.61
Philippines	8.29	9.78	0.85
Singapore	196.60	80.66	2.44
Thailand	45.57	31.36	1.45
Taipei, China	21.97	90.02	0.24

*Source: Short-term debt: Bank for International Settlements date; reserves IMF (1998a); staff estimate.*

# Selected Indicators of Corporate Financing, Selected Asian Economies 1996

Economy	Debt to Equity Ratio		Ratio of short-term to total debt	
	Mean	Median	Mean	Median
Hong Kong, China	1.56	1.42	0.60	0.64
Indonesia	1.88	1.83	0.54	0.57
Japan	2.21	1.92	0.58	0.59
Korea	3.55	3.25	0.57	0.59
Malaysia	1.18	0.90	0.64	0.70
Philippines	1.29	0.93	0.58	0.59
Singapore	1.05	0.81	0.58	0.59
Taipei, China	0.80	0.74	0.59	0.61
Thailand	2.36	1.85	0.63	0.67

Source: Claessens, Djonkor, and Lang (1998). Note: Data derived from sample of 5,500 Asian firms.

## Corporate Debt Composition, Selected Asian Economies, 1996 (percentage)

Economy	Foreign Debt		Domestic Debt	
	Short-term	Long-term	Short-term	Long-term
Indonesia	20.5	19.6	31.4	28.5
Korea	29.4	17.1	27.7	25.8
Malaysia	32.1	11.0	35.7	21.2
Philippines	19.7	21.3	25.5	33.5
Taipei, China	22.3	19.2	23.9	34.6
Thailand	29.6	12.3	32.0	26.1

Source: Claessens, Djonkor, and Lang (1998). Note: Data derived from sample of 5,500 Asian firms.



# Positives and Negatives Capital Flows

“Small/vulnerable” economies, are at higher risk of becoming contaminated by foreign markets as a result of general volatilities within capital flows, which frequently reflects the globalization of the financial markets and the mobility of capital.

- Economies most adversely impacted by capital flight:
  - Have negative current account balances; and
  - Have a concentration of short-term foreign borrowings, especially in relation to international reserves.
- Before the Asian financial crisis future expectations of the lenders, borrowers, and investors were frequently erroneous.
- Fueled with optimistic expectations that almost reached the stage of euphoria, Asian countries were vulnerable to the change in expectation.

# Positives and Negatives Capital Flows

- Crisis occurs as a result of a sudden reversal of capital flow. Adjustments can represent shifts in portfolio preference, i.e., from assets denominated in the currency of country (region) “A” to assets denominated in the currency of country (region) “B” (Portfolio Approach).
- Financial crisis fueled by changes in portfolio preferences are frequently driven by such factors as:
  - Poor fundamental monetary policies and external balances;
  - Mismatching of short and long demand and supply in the credit market;
  - Moral hazard in lending to developing countries due to the explicit or implicit assurance by governments; and
  - Speculative international banking and investing based on conjectural expectation among speculators (i.e., myopic herding behavior).

# Adverting / Minimizing Financial Crisis

## There Is No Single Solution!!

- For “small/vulnerable” economies an appropriate combination of liberalization and regulations might be the only viable solution.
- **Objective:** Foster foreign investments and investor confidence, while monitoring and managing current account and monetary policy.
- **Issue:** Emerging market investors frequently consider the markets to be homogeneous, thus they do not adequately differentiate assets (countries). Instead, investors focus on yields and event risk.

# Adverting / Minimizing Financial Crisis

## Key elements for adverting financial crisis

- A coherent and comprehensive macroeconomic scheme that adequately combines regulatory controls and surveillance with liberalization.
- Regulatory controls should not scare off foreign investment, since foreign investment is vital.

## Chilean Model:

- Incorporates soft controls designed to change the composition and maturity of capital flows;
- Provides investors incentive to shift to longer-term credit and foreign direct investment; and
- Is based on an important lesson learned: ***long-term and foreign direct investments are preferable to short-term and portfolio investment.***

# Chilean Model

## Highlights of the Chilean Model (1989):

- Currency transactions of exporters and importers of goods, capital, and services settled through the framework of the formal market.
  - Timing of capital repatriated.
  - Interest payment registration and timing – Designed to limit volatility.
  - Obligatory cash reserve requirement – Designed to limit short-term speculation.

# The Impact of Legal And Institutional Reform on the Financial Sector

- Looking at the Legal and Institutional Environment
- Regulation, Supervision, Inspection, and Enforcement
- The Independence of Regulators
- Central Banks – Structure & Function
- Integrated vs. Individual Regulators, and SROs

# Looking at the Legal and Institutional Environment

- Commercial laws and judicial system
- Corporate governance and shareholder rights enforcement
- Tax reform and accounting standards
- Bankruptcy laws
- Labor laws
- Banking/capital markets laws and regulations
- Foreign direct investment laws and regulations

# Regulation, Supervision, Inspection, and Enforcement

- **Regulation:** Rule or orders having the force of law issued by an executive authority of government.
- **Supervision:** Critically watching and directing the actions of participants (oversight).
- **Inspection:** Checking or testing the actions of participants against standards or regulations.
- **Enforcement:** Investigating and prosecuting regulatory violations.



# Integrated Regulators (Super-Regulator)

The development and growth of integrated regulators reflect the:

- Increasing number of financial conglomerates;
- Potential economies of scale and scope benefits from combining regulatory responsibilities;
- Reappraisal in some countries of the allocation and accountability for monetary stability, financial stability and micro-regulatory responsibilities.

The UK Financial Service Authority merged into a single entity the nine regulatory bodies responsible for banking, securities and insurance business, and for markets and exchanges.

# Integrated Regulators (Super-Regulator)

## Rationale for establishing an integrated regulators

- **Resource Allocation**
  - A single regulator should be more efficient in the allocation of regulatory resources across both regulated firms and types of regulated activities.
- **Conflict Resolution**
  - A single regulator ought to be best placed to resolve efficiently and effectively the conflicts which inevitably emerge between the different objectives of regulation.
- **Appropriate Differentiation**
  - A single regulator ought to be able to avoid the unjustifiable differences in supervisory approaches.
- **Accountability**
  - A single regulator, given a clear set of responsibilities, ought to be able to increase transparency and accountability of the single regulator.

# Latvia's Integrated Regulators

In 2001 Latvia created two “super-regulators,” the Financial and Capital Market Commission (FCMC) and the Public Utilities Commission (PUC)

- FCMC assumed the responsibilities for supervising credit institutions, as well as the Deposit Insurance Guarantee Administration, State Insurance Supervisory Inspectorate, and the Securities Market Commission.
- PUC has taken over regulatory functions previously performed by separate energy and telecommunications councils and by the Ministry of Transport.

Motivating factors for creating super-regulators

- A key practical factor was the need to concentrate scarce resources. The authorities felt that a critical mass was needed to attract the best people.
- The agency's scale and size (and the accompanying prestige) helps maintain political independence and protect against the danger of regulatory capture.
- Both regulators are politically and financially independent institutions.

# The Individual Regulators

## **US Model:** Central Banks (Federal Reserve System) – Structure & Function

- The Federal Reserve's duties include:
  - Conducting the nation's monetary policy by influencing money and credit conditions in the economy in pursuit of full employment and stable prices;
  - Promoting the stability of the financial system;
  - Providing banking services to depository institutions and to the federal government; and
  - Ensuring that consumers receive adequate information and fair treatment in their interactions with the banking system.

# Individual Regulators

## **Central Banks – Structure & Function**

- National banks, chartered by the federal government (OCC) are by law, members of the Federal Reserve System. State-chartered banks and trust companies may apply for membership in the Federal Reserve System.
- Member banks must subscribe to stock in their regional Federal Reserve Bank.

## **Comptroller of the Currency (OCC)**

- OCC charters, regulates, and supervises all national banks, as well as federal branches and agencies of foreign banks.
- OCC has the authority to:
  - Examine banks;
  - Approve or deny applications; and
  - Take supervisory actions against banks that do not comply.

# Individual Regulators

## Federal Deposit Insurance Corporation

- The Federal Deposit Insurance Corporation's mission is to maintain the stability of and public confidence in the nation's financial system.

## Federal Financial Institutions Examination Council

- A formal interagency body empowered to recommend and prescribe uniform principles, standards, and report forms for the federal examination of financial institutions under the control of various regulators.

# Individual Regulators

## National Credit Union Administration

- The National Credit Union Administration is an independent federal agency that supervises and insures federal credit unions and insures state-chartered credit unions.

## Office of Thrift Supervision (OTS)

- The OTS is the primary regulator of all federal and many state-chartered thrift institutions, which include savings banks and savings and loan associations.

## Federal Housing Finance Board

- The Finance Housing Finance Board is the federal regulator of the Federal Home Loan Bank and its 7,902 member-owners, which helps finance the country's urban and rural housing and community development needs.



# Individual Regulators

## The Securities and Exchange Commission (SEC)

- SEC's primary mission is to protect investors and maintain market integrity.
- The SEC oversees the key participants in the securities world, including stock exchanges, broker-dealers, investment advisors, mutual funds, and public utility holding companies.
- The SEC promotes the disclosure of important information, enforcing the securities laws, and protecting investors who interact with the market participants, e.g., public companies and securities participants.
- SEC's four Operating Divisions:
  - *Corporate Finance* (disclosure of information);
  - *Market Regulation* (standards for fair, orderly, and efficient markets);
  - *Investment Management* (oversees investment management industry and financial advisors); and
  - *Enforcement* (investigate possible violations of securities laws).



# Self Regulating Organization (SRO)

- An entity responsible for regulating its members through the adoption and enforcement of rules and regulations governing the business conduct of its members.
- Self-regulating Organizations include:
  - Securities Exchanges and Associations;
  - Clearing Agencies;
  - Professional Organizations; and
  - Standards – Setting Organizations.

# Self Regulating Organization (SRO)

## Securities Exchanges and Associations:

- American Stock Exchange, Boston Stock Exchange, Chicago Board Options Exchange, International Securities Exchange, NASD, Inc. (the parent), The Nasdaq Stock Market, Inc., New York Stock Exchange, Pacific Stock Exchange, Municipal Securities Rulemaking Board

## Clearing Agencies:

- The Depository Trust and Clearing Corporation (parent), The Depository Trust Company, Emerging Markets Clearing Corporation, Mortgage Backed Securities Clearing Corporation, National Securities Clearing Corporation, Options Clearing Corporation